

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Iron County Road Commission	County Iron
Audit Date 12/31/04	Opinion Date 5/25/05	Date Accountant Report Submitted to State: 6/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 901 Ludington Street	City Escanaba	State MI	ZIP 49829
Accountant Signature <i>Anderson, Tackman & Company P.C.</i>		Date 6/30/05	

IRON COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

IRON COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Wayne J. Wales
Chairman

Chalmers A. McGreaham
Vice - Chairman

James E. Juneau
Member

Douglas C. Tomasoski
Superintendent/Manager

Darlene M. Anderson
Office Manager/Clerk

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Balance Sheet	11
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	14
Notes to Financial Statements	15
Supplemental Information:	
Budgetary Comparison Schedule: Statement of Revenues and Other Financing Sources	28
Statement of Expenditures – Budget and Actual.....	29
Analysis of Changes in Fund Balances	30
Analysis of Revenues.....	31
Analysis of Expenditures	32
Compliance Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	33



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the accompanying financial statements of the governmental activities and the governmental major fund of the Iron County Road Commission (a component unit of the County of Iron, Michigan) as of and for the year ended December 31, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major governmental fund of the Iron County Road Commission as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2005, on our consideration of the Iron County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis on page 3 and budgetary comparisons on pages 28 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting procedures generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iron County Road Commission’s basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2005

Management's Discussion and Analysis

Using This Annual Report

The Iron County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns. This is the first year the Road Commission reported under GASB 34, therefore, no comparisons with prior year will be made. In future years, comparative information will be presented in various schedules throughout the MD&A.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Iron County Road Commission

Management's Discussion and Analysis December 31, 2004

The Road Commission as a Whole

The road commission's net assets increased approximately 130% from \$2.0 million to \$4.6 million for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net assets increased \$2,605,058 during the current year primarily due to infrastructure additions for road projects funded by state and federal funds. The investment in capital assets category increased \$2,996,649.

Net assets as of the year ending December 31, 2004 is as follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 1,806,394
Capital Assets	<u>6,245,283</u>
Total Assets	<u>\$ 8,051,677</u>
Current Liabilities	1,035,554
Long-term Liabilities	<u>2,375,750</u>
Total Liabilities	<u>\$ 3,411,304</u>
Net Assets:	
Investment in Capital Assets, Net of Related Debt	3,763,535
Restricted	<u>876,838</u>
Total Net Assets	<u>\$ 4,640,373</u>

Iron County Road Commission

Management's Discussion and Analysis December 31, 2004

A summary of changes in net assets for the year ending December 31, 2004 are as follows:

Program Revenues:	
Charges for Services	\$ 794,963
Operating Grants and Contributions	4,818,662
Licenses and Permits	3,542
General Revenues:	
Interest Income	8,632
Gain on Disposal of Equipment	19,714
Total Revenues	<u>\$ 5,645,513</u>
Program Expenses:	
Primary Roads:	
Heavy Maintenance	16,739
Maintenance	793,323
Local Roads:	
Heavy Maintenance	178,652
Maintenance	953,061
State Trunkline Maintenance	766,535
Equipment Expenses	(79,550)
Administrative	242,189
Compensated Absences	26,423
Interest Expense	142,251
Amortization Expense	1,533
Total Expenses	<u>\$ 3,041,156</u>
Increases in Net Assets	<u><u>\$ 2,604,357</u></u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund decreased \$544,593 as compared to an increase of \$724,205 in the fund balance for the year ended December 31, 2003. Total revenues were \$5,645,513, a decrease of \$2,094,706 as compared to last year. This decrease is primarily due to bond proceeds received in the prior year.

Total expenditures were \$6,190,106, a decrease of \$825,908 as compared to last year. This change in expenditures is primarily due to the expenditures relating to the garage construction costs incurred during the prior year.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

Budgeted revenue for 2004 was higher than the actual revenue by \$1,855,898. The primary reasons for the difference are due to the budgeted projects for construction and engineering of Forest Highway 16, and County Road 424 Bypass. These projects were budgeted, yet were not undertaken. Furthermore, funding from the township for the Mansfield Cutoff Road was not received in 2004, but the project was completed; the anticipated revenue for State Trunkline Maintenance and Non-Maintenance was less than anticipated; and there were no proceeds from borrowing as anticipated.

Road Commission expenditures were projected at \$7,501,411 while actual expenditures were \$6,190,106. This resulted in total expenditures under budget by \$1,311,305. The primary reason for the reduced expenditure amount was the Forest Highway 16 project not being constructed.

Iron County Road Commission

Management's Discussion and Analysis December 31, 2004

Capital Assets

A summary of capital assets for the year ending December 31, 2004 is as follows:

Capital Assets Not Being Depreciated:	
Land and Improvements	\$ 26,568
Construction in Progress	18,584
Other Capital Assets:	
Buildings and Improvements	3,230,625
Road Equipment	3,332,352
Other Equipment	171,213
Infrastructure and Improvements	<u>2,744,924</u>
Total Capital Assets at Historic Cost	<u>9,524,266</u>
Total Accumulated Depreciation	<u>(3,278,983)</u>
Total Net Capital Assets	<u><u>\$ 6,245,283</u></u>

Current year's major additions included the following:

Various Road Projects	\$ 2,709,689
Bridge Project	35,235
Trucks/Equipment	178,392
Buildings	432,355

Debt

The road commission has limited debt obligations. Bonds issued in prior years have been paid currently. The road commission has long-term debt in the amount of \$2,375,750, which represents compensated absences, and bonds and leases payable. More detailed information about the road commission's long-term liabilities is presented in Note 9 to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissions considered many factors when setting the fiscal year 2005 budget. There is no overall change anticipated in the proposed revenue side of the budget. MTF funding is expected to be near the levels of 2004. On the plus side, one of the two bridges finance through the Critical Bridge Program is budgeted anticipating funding and constructing in 2005 (although as of June 2005, it now looks as though it will be pushed back to 2006) and the purchase (and funding) of several pieces of equipment should increase revenue line items. On the down side, earned interest, salvage and timber sales, township funding of local heavy maintenance projects, and township and other contributions are expected to be less than in 2004.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Iron County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Iron County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iron County Road Commission administrative offices at 800 W. Franklin Street, Iron River, Michigan 49935.

Basic Financial Statements

Iron County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Cash and Equivalents	\$ 104,778
Accounts Receivable:	
Michigan Transportation Fund	354,196
State – Other	567,267
Due on County Road Agreements	152,610
MDOT – Salt Shed	16,255
Sundry Accounts	1,430
Inventories:	
Road Materials	498,933
Equipment, Parts and Materials	89,458
Bond Discount	21,467
Capital Assets (Net of Accumulated Depreciation)	<u>6,245,283</u>
Total Assets	<u>\$ 8,051,677</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 171,438
Accrued Liabilities	31,590
Deferred Revenue	213,428
Advances from State	172,556
Interest Payable	32,878
Bonds Payable	45,000
Leases Payable	291,748
Compensated Absences	76,916
Noncurrent Liabilities:	
Bonds Payable	2,145,000
Compensated Absences	<u>230,750</u>
Total Liabilities	<u>3,411,304</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	\$ 3,763,535
Restricted for County Road	<u>876,838</u>
Total Net Assets	<u>\$ 4,640,373</u>

Iron County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses:	
Primary Road Heavy Maintenance	\$ 16,739
Primary Road Maintenance	793,323
Local Road Heavy Maintenance	178,652
Local Road Maintenance	953,061
State Trunkline Maintenance	766,535
Net Equipment Expense	(79,550)
Net Administrative Expense	242,189
Compensated Absences	26,423
Interest Expense	142,251
Amortization Expense	<u>1,533</u>
Total Program Expenses	<u>3,041,156</u>
Program Revenues:	
License and Permits	3,542
Federal Grants	1,091,417
State Grants	3,165,585
Contributions from Local Units	561,660
Charges for Services	<u>794,963</u>
Total Program Revenues	<u>5,617,167</u>
Net Program Revenues	<u>2,576,011</u>
General Revenue	
Investment Earnings	8,632
Gain on Equipment Disposal	<u>19,714</u>
Total General Revenues and Transfers In	<u>28,346</u>
Change in Net Assets	2,604,357
Net Assets:	
Beginning of Year	<u>2,036,016</u>
End of Year	<u><u>\$ 4,640,373</u></u>

The Notes to Financial Statements are an integral part of this statement.

Iron County Road Commission

Balance Sheet
December 31, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 104,778
Accounts Receivable:	
Michigan Transportation Fund	354,196
State – Other	567,267
Due on County Road Agreements	152,610
MDOT – Salt Shed	16,255
Sundry Accounts	1,430
Inventories:	
Road Materials	498,933
Equipment, Parts, and Materials	89,458
Bond Discount	<u>21,467</u>
Total Assets	<u>\$ 1,806,394</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 171,438
Accrued Liabilities	31,590
Deferred Revenue	213,428
Advances from State	172,556
Interest Payable	<u>32,878</u>
Total Liabilities	<u>621,890</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,184,504</u>
Total Fund Equities	<u>1,184,504</u>
Total Liabilities and Fund Equities	<u>\$ 1,806,394</u>

The Notes to Financial Statements are an integral part of this statement.

Iron County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2004

Total Governmental Fund Balance	\$ 1,184,504
---------------------------------	--------------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,245,283
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,789,414)</u>
---	--------------------

Net Assets of Governmental Activities	<u>\$ 4,640,373</u>
---------------------------------------	---------------------

Iron County Road Commission

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended December 31, 2004

	General Operating Fund
Revenues:	
License and Permits	\$ 3,542
Federal Sources	1,091,417
State Sources	3,165,585
Contributions from Local Units	561,660
Charges for Services	794,963
Interest and Rents	8,632
Other Revenue	<u>19,714</u>
Total Revenues	<u>5,645,513</u>
Expenditures	
Public Works	5,630,103
Capital Outlay	236,794
Debt Service	<u>323,209</u>
Total Expenditures	<u>6,190,106</u>
Excess of Revenues Over (Under) Expenditures	(544,593)
Fund Balance – January 1, 2004	<u>1,729,097</u>
Fund Balance – December 31, 2004	<u>\$ 1,184,504</u>

The Notes to Financial Statements are an integral part of this statement.

Iron County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net Change in Fund Balance – Total Governmental Funds \$ (544,593)

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,995,949

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. 179,424

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (26,423)

Change in Net Assets of Governmental Activities \$ 2,604,357

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iron County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Iron County Road Commission.

Effective January 1, 2004, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Road Commission's overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The Iron County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member Board of County Road Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Iron County Road Commission, a discretely presented component unit of Iron County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, along with other revenues, which are designated for road and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Iron County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement, Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Road Commission has not recored an allowance for uncollectible accounts, and the Road Commission does not anticipate that amount to be material.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Iron County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets on a prospective basis.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years	Office Equipment	4 to 10 years
Road Equipment & Vehicles	5 to 8 years	Infrastructure – Roads	8 to 30 years
Shop Equipment	10 years	Infrastructure – Bridges	12 to 50 years
Engineering Department	4 to 10 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. The annual vacation benefits earned by each employee are credited at the beginning of the year. An employee who is eligible for vacation leave in excess of twenty (20) days, may, with the consent of the employer, take pay at the employee's regular rate of pay for time in excess of twenty (20) days in-lieu-of vacation leave.

Employees may carry over a maximum of ten (10) days vacation into the next year. An employee leaving the services of the Road Commission will be paid all unused vacation carried over to January 1st up to a maximum of ten (10) days, plus any vacation earned, on a prorated basis to the end of the month of separation, in accordance with the vacation policy in effect at this time.

Road Commission employment policies provide that each full-time employee shall earn sick leave with pay at the rate of eight (8) hours for each month of employment in which the employee is compensated for at least eighteen (18) days, with unlimited accumulation. Upon permanent separation from employment, employees shall be paid for all of his accumulated sick leave at the employee's prevailing rate of pay up to a maximum of ninety (90) days. In the event his balance at time of retirement is over ninety (90) days, all accumulated excess of the ninety (90) days will be paid at the rate of fifty percent (50%).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (superintendent/manager) and clerk prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the Board. Also, the Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road:			
Maintenance	\$ 712,500	\$ 794,975	(82,475)
Local Road:			
Maintenance	607,056	953,061	(346,005)
State Trunkline Maintenance	602,206	766,535	(164,329)
Equipment Expense – Net	(310,000)	(53,651)	(256,349)
Administrative Expense – Net	149,500	242,189	(92,689)

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 200
Deposits held by Road Commission - checking	47,611
Deposits held by County Treasurer - checking	<u>56,967</u>
Total Cash	<u>\$ 104,778</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Imprest Cash	\$ 200	\$ -
Bank deposits:		
Deposits – County Treasurer	56,967	56,967
Deposits – Road Commission	<u>47,611</u>	<u>50,104</u>
Total	<u>\$ 104,778</u>	<u>\$ 107,071</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to deposits held with the County Treasurer), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's common bank account. The Road Commission would receive its proportional share of insurance coverage.

Iron County Road Commission

Notes to Financial Statements For the Year Ended December 31, 2004

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Iron County Road Commission for the current year was as follows:

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 26,568	\$ -	\$ -	\$ 26,568
Construction in progress	-	18,584	-	18,584
Subtotal	26,568	18,584	-	45,152
Capital Assets Being Depreciated				
Buildings and Improvements	2,798,270	432,355	-	3,230,625
Road Equipment	3,294,594	167,123	129,365	3,332,352
Shop Equipment	77,668	5,771	-	83,439
Engineers' Equipment	20,719	-	-	20,719
Office Equipment	61,557	5,498	-	67,055
Infrastructure – Roads	-	2,709,689	-	2,709,689
Infrastructure – Bridges	-	35,235	-	35,235
Subtotal	6,252,808	3,355,671	129,365	9,479,114
Less Accumulated Depreciation				
Buildings and Improvements	300,064	83,697	-	383,761
Road Equipment	2,604,327	282,740	154,970	2,732,097
Shop Equipment	56,614	3,528	-	60,142
Engineers' Equipment	14,319	1,197	-	15,516
Office Equipment	54,718	2,496	-	57,214
Infrastructure – Roads	-	29,858	-	29,858
Infrastructure – Bridges	-	395	-	395
Subtotal	3,030,042	403,911	154,970	3,278,983
Net Capital Assets Being Depreciated	3,222,766	2,951,760	(25,605)	6,200,131
Total Net Capital Assets	\$ 3,249,334	\$ 2,970,344	\$ (25,605)	\$ 6,245,283

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT

Plan Description – The Iron County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employee's Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2003.

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333 (a); MCLA 46.12 (a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

The Road Commission offers its participants either benefits B-3 or B-4. Under benefit B-3, employees shall receive 2.5% of their five-year final average compensation with a maximum benefit of 80% of final average compensation. Under benefit B-4, employees shall receive 2.5% of their three-year final average compensation, with a maximum of 80% of final average compensation. Retirement eligibility and requirement vary by plan division. The most recent actuarial report gives the details of the plan and a copy is on file at the Road Commission office.

Actuarial Accrued Liability – All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 INFORMATION (as of 12/31/2003)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 4,327,350
Terminated employees (vested former members) not yet Receiving benefits	91,313
Current employees –	
Accumulated employee contributions including allocated investment income	12,827
Employer financed	<u>4,063,127</u>
Total Actuarial Accrued Liability	\$ 8,494,617
Net Assets Available for Benefits at Actuarial Value (Market Value is \$4,453,714)	<u>4,877,534</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 3,617,083</u>

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

GASB 27 INFORMATION (as of 12/31/2003)

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$ 305,460*
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632

* Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning January 1, 2005) times the computed employer contribution rate(s).

Funding Policy – MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual Pension Costs – The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The Road Commission was required to contribute \$305,609 for the year ended December 31, 2004. Payments were based on contribution calculations made by MERS.

<u>Annual Pension Cost</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (APC)	\$ 249,140	\$ 262,089	\$ 269,972
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
 <u>Aggregate Accrued Liabilities</u>			
Actuarial Value of Assets	\$ 4,784,854	\$ 4,737,919	\$ 4,877,534
Actuarial Accrued Liability	7,727,134	8,001,922	8,494,617
Unfunded AAL	(2,942,280)	(3,264,003)	(3,617,083)
Funded Ratio	62%	59%	57%
Covered Payroll	1,030,354	1,052,519	1,099,393
UAAL as a Percentage of Covered Payroll	286%	310%	329%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

NOTE 5 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

The actuarial assumptions used in connection with these December 31, 2003 actuarial valuation are unchanged from the December 31, 2002 valuation assumptions. These actuarial assumptions currently utilized are summarized as follows:

Interest Rate – Funding plan benefits involves the accumulation of assets to pay benefits in the future. These assets are invested and the net rate of investment earnings is a significant factor in determining the contributions required to support the ultimate cost of benefits. For the 2003 actuarial valuation, the net long-term investment yield is assumed to be 8%. The reader should note that, given that the actuarial value of the assets is currently 9% higher than the market value, meeting the actuarial assumption will require average future market returns that exceed the 8% investment return assumption.

Salary Increases – Because benefits are based on a member's final average compensation, it is necessary to make an assumption with respect to each member's estimated salary progression. The salary increase assumption used in the actuarial valuation projects annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

Inflation – Although no specific price inflation assumption is needed for this valuation, the 4.5% wage inflation assumption would be consistent with a price inflation of 3% to 4%.

Payroll Growth – For divisions that are not closed to new hires, the number of active members is projected to remain constant, and the total payroll is projected to increase 4.5% annually in the long term.

NOTE 6 - POST-EMPLOYMENT BENEFITS

In addition to the benefits described in Note 5, the Iron County Road Commission provides post-employment health care benefits and life insurance benefits, in accordance with the provision of Article 49, Section 3, and Article 50, Section 2 of the union agreement for all retirees who were hired by the Road Commission, and retire under the Michigan Municipal Employees' Retirement System. The post-employment health care benefit provides that the Road Commission will continue to pay the monthly hospitalization insurance plan premium for the retiree only, without the specific drug and dental program, provided he/she makes application for the Medicare card, prior to the effective date of Medicare coverage. The post-employment life insurance benefit provides that the Road Commission will pay for \$8,000 of term life insurance coverage for each retiree. Currently, 30 retirees are eligible for these post-employment benefits. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year 2004, expenditures of \$114,645 were recognized for post-employment health care benefits, and \$12,753 for life insurance benefits.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$1,091,417 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

Changes in Long-Term Debt

	<u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/04</u>
Bond Payable –				
Road Commission Facility	\$ 2,235,000	\$ -	\$ 45,000	\$ 2,190,000
Installment Purchase Agreements –				
(2) International Quad Axle				
Dump Trucks	167,359	-	110,652	56,707
Wheel Loader #380	132,503	-	13,394	119,109
Wheel Loader #381	126,310	-	10,378	115,932
Vested Employee Benefits Payable –				
Vacation Benefits	21,837	2,754	-	24,591
Sick Leave Benefits	<u>259,407</u>	<u>23,668</u>	<u>-</u>	<u>283,075</u>
Total	<u>\$ 2,942,416</u>	<u>\$ 26,422</u>	<u>\$ 179,424</u>	<u>\$ 2,789,414</u>

NOTE 9 - LONG-TERM DEBT (Continued)
Bond Payable – Road Commission Facility Project

On January 1, 2003, Michigan Transportation Fund Bonds, Series 2003 in the amount of \$2,300,000 were issued for acquiring, constructing, and furnishing and equipping a new county road commission central garage complex for use by the Iron County Road Commission. The annual requirements to pay the principal and interest on the bonds at December 31, 2004:

	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Terms: Semi-annual payments are due on February 1 st and August 1 st for a term of 30 years with a variable interest rate between 3.75 – 5.00%. February 1 st payments consist of interest only and August 1 st payments consist of principal and interest. Final payment is due 8/01/2032.	2005	\$ 45,000	\$ 98,635	\$ 143,635
	2006	45,000	96,948	141,948
	2007	45,000	95,260	140,260
	2008	50,000	93,573	143,573
	2009	50,000	91,698	141,698
	2010-2014	275,000	428,990	703,990
	2015-2019	335,000	368,850	703,850
	2020-2024	425,000	286,538	711,538
	2025-2029	530,000	177,373	707,373
	2030-2032	<u>390,000</u>	<u>39,500</u>	<u>429,500</u>
Total Bonds Payable		<u>\$ 2,190,000</u>	<u>\$ 1,777,365</u>	<u>\$ 3,967,365</u>

Lease Purchase – Equipment

In 2003, the Iron County Board of Road Commissioners entered into a lease purchase agreement to finance the acquisition of two new International Quad Axle Dump Trucks. The annual requirements to pay the principal and interest on the lease agreement at December 31, 2004 are as follows:

Harco Leasing Company, Inc.	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Terms: Semi-annual payments of \$57,649 at 3.25% interest on the 21 st of January and July with final payment on 1/21/2005.	2005	<u>\$ 56,707</u>	<u>\$ 941</u>	<u>\$57,648</u>

In 2000, the Iron County Board of Road Commissioners entered into a lease purchase agreement to finance the acquisition of two new loaders. The annual requirements to pay the principal and interest on the lease agreement at December 31, 2004 are as follows:

Caterpillar Finance Services	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Terms: Annual payments of \$39,880 at 6.25% interest on September 18 th , and a final payment of \$249,881 on 9/18/2005.	2005	<u>\$ 235,041</u>	<u>\$14,699</u>	<u>\$249,881</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims would not have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Risk Management – The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits claims and boiler and machinery coverage. They participate in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Iron County Road Commission became a charter member in 1984.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan, member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductions amounts.

Supplementary Information

Iron County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Revenues and Other Financing Sources For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 1,000	\$ 1,000	\$ 3,542	\$ 2,542
Federal Sources	1,743,000	1,743,000	1,091,417	(651,583)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Snow Removal	88,000	88,000	91,278	3,278
Allocation	2,158,000	2,158,000	2,304,325	146,325
Other				
State Critical Bridge	-	-	10,064	10,064
FEMA and Salt Shed	-	-	440,866	440,866
Economic Development Fund				
Forest Road	213,430	213,430	213,428	(2)
Rural Primary	-	-	95,624	95,624
Contributions from Local Units				
Townships	949,175	949,175	561,660	(387,515)
Charges for Services				
Trunkline Maintenance	562,206	562,206	740,652	178,446
Trunkline Non-Maintenance	465,000	465,000	25,883	(439,117)
Salvage and Timber Sales	20,000	20,000	28,428	8,428
Interest and Rents	20,000	20,000	8,632	(11,368)
Other Revenue				
Other	1,267,600	1,267,600	-	(1,267,600)
Gain on Equipment Disposal	4,000	4,000	19,714	15,714
Total Operating Revenue	<u>\$ 7,501,411</u>	<u>\$ 7,501,411</u>	<u>\$ 5,645,513</u>	<u>\$ (1,855,898)</u>

Iron County Road Commission

Required Supplementary Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Heavy Maintenance	\$ 3,207,650	\$ 3,207,650	\$ 2,022,296	\$ 1,185,354
Maintenance	712,500	712,500	794,975	(82,475)
Local Road				
Heavy Maintenance	926,000	926,000	904,698	21,302
Maintenance	607,056	607,056	953,061	(346,005)
State Trunkline Maintenance	602,206	602,206	766,535	(164,329)
Equipment Expense – Net	(310,000)	(310,000)	(53,651)	(256,349)
Administrative Expense – Net	149,500	149,500	242,189	(92,689)
Capital Outlay – Net	254,000	254,000	236,794	17,206
Distributive Expense – Net	1,052,000	1,052,000	-	1,052,000
Debt Service				
Principal	179,352	179,352	179,424	(72)
Interest	121,147	121,147	142,252	(21,105)
Other	-	-	1,533	(1,533)
Total Expenditures	7,501,411	7,501,411	<u>\$ 6,190,106</u>	<u>\$ 1,311,305</u>
Fund Balance – January 1, 2004	<u>1,729,097</u>	<u>1,729,097</u>		
Total Budget	<u>\$ 9,230,508</u>	<u>\$ 9,230,508</u>		

Iron County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,844,482	\$ 1,548,986	\$ 1,252,045	\$ 5,645,513
Total Expenditures	<u>- 2,942,151</u>	<u>1,933,473</u>	<u>1,314,482</u>	<u>6,190,106</u>
Excess of Revenues Over (Under) Expenditures	(97,669)	(384,487)	(62,437)	(544,593)
Other Financing Sources (Uses)				
Optional Transfers In (Out)	<u>(482,832)</u>	<u>482,832</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(580,501)	98,345	(62,437)	(544,593)
Fund Balance – January 1, 2004	<u>1,628,334</u>	<u>38,051</u>	<u>62,712</u>	<u>1,729,097</u>
Fund Balance – December 31, 2004	<u>\$ 1,047,833</u>	<u>\$ 136,396</u>	<u>\$ 275</u>	<u>\$ 1,184,504</u>

Iron County Road Commission

Analysis of Revenues For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 3,542	\$ 3,542
Federal Sources	891,224	200,193	-	1,091,417
State Sources				
Michigan Transportation Fund				
Engineering	6,900	3,100	-	10,000
Snow Removal	-	91,278	-	91,278
Allocation	1,602,543	701,782	-	2,304,325
Other				
State Critical Bridge	-	3,718	-	10,064
FEMA and Salt Shed	3,757	11,915	425,194	440,866
Economic Development Fund				
Forest Road	213,428	-	-	213,428
Rural Area	95,624	-	-	95,624
Contributions from Local Units				
Townships	24,660	537,000	-	561,660
Charges for Services				
Trunkline Maintenance	-	-	740,652	740,652
Trunkline Non-Maintenance	-	-	25,883	25,883
Salvage and Timber Sales	-	-	28,428	28,428
Interest and Rents	-	-	8,632	8,632
Other Revenue				
Gain on Equipment Disposal	-	-	19,714	19,714
Total Revenue	<u>\$ 2,844,482</u>	<u>\$ 1,548,986</u>	<u>\$ 1,252,045</u>	<u>\$ 5,645,513</u>

Iron County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ - 2,022,296	\$ -	\$ -	\$ 2,022,296
Maintenance	794,975	-	-	794,975
Local Road				
Heavy Maintenance	-	904,698	-	904,698
Maintenance	-	953,061	-	953,061
State Trunkline Maintenance	-	-	766,535	766,535
Equipment Expense – Net	(21,068)	(20,527)	(12,056)	(53,651)
Administrative Expense – Net	145,948	96,241	-	242,189
Capital Outlay – Net	-	-	236,794	236,794
Debt Service				
Debt Principal Payments	-	-	179,424	179,424
Interest Expense	-	-	142,252	142,252
Other	-	-	1,533	1,533
Total Expenditures	<u>\$ 2,942,151</u>	<u>\$ 1,933,473</u>	<u>\$ 1,314,482</u>	<u>\$ 6,190,106</u>

Compliance Reports

**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the financial statements of the governmental activities and major governmental fund of the Iron County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Iron County Road Commission's basic financial statements, and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iron County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by fraud or error in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated May 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iron County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government*

Board of County Road Commissioners
Iron County Road Commission

Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Iron County Road Commission in a separate letter dated May 25, 2005.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.
Anderson, Tackman & Company, PLC
Certified Public Accountants

May 25, 2005



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA

REPORT TO MANAGEMENT

Board of County Road Commissioners
Iron County Road Commission
800 W. Franklin Street
Iron River, MI 49935-1047

We have audited the financial statement of the Iron County Road Commission for the year ended December 31, 2004, and have issued our reports thereon dated May 25, 2005. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated October 21, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Iron County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Iron County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Iron County Road Commission are described in Note 1 of the financial statements.

Board of County Road Commissioners
Iron County Road Commission

Management Judgement and Accounting Estimates

Some accounting estimates are utilized in financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of these estimates are based on reviewing and testing the historical data provided by management and using this data to compute the estimates. The most sensitive estimates affecting the financial statements were the useful lives of property and equipment for the purpose of calculating depreciation.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Iron County Road Commission or a determination of the type of auditors' opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iron County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Board of County Road Commissioners
Iron County Road Commission

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in the performance of our audit.

In planning and performing our audit of the financial statements of the Iron County Road Commission, for the year ended December 31, 2004, we considered the Iron County Road Commission's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated May 25, 2005, on the financial statements of the Iron County Road Commission.

We have already discussed many of these comments and recommendations with various Road Commission personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Iron County Road Commission and management of the Iron County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

May 25, 2005

Iron County Road Commission

**Comments and Recommendations
December 31, 2004**

BUDGET VIOLATIONS

Comment:

Public Act 621 of 1978, Section 18(1), as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated. The actual 2004 expenditures for the following activities (cost centers) exceeded the amended budget allocations which is contrary to the provision of Section 17 of Public Act 621 of 1978, the "Uniform Budgeting and Accounting Act."

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road: Maintenance	\$ 712,500	\$ 794,975	(82,475)
Local Road: Maintenance	607,056	953,061	(346,005)
State Trunkline Maintenance	602,206	766,535	(164,329)
Equipment Expense – Net	(310,000)	(53,651)	(256,349)
Administrative Expense – Net	149,500	242,189	(92,689)

Recommendation:

We recommend expenditure accounts be closely monitored in order to determine the need to amend the budget to prevent violations. We further noted that no budget amendments were made to the budget during the year and thus further recommend the budget be utilized to control and monitor expenditures during the year.

ACH POLICY

Comment:

We noted that the Board has not established a policy governing the use of electronic fund transfers or other ACH arrangements per requirement of Public Act 738 of 2002.

Recommendation:

We recommend that the Board develop a plan in accordance with Public Act 738 of 2002, detailing the authority, responsibility, and controls surrounding ACH activities by the Road Commission.

TIME REPORTS

Comment:

During testing of the payroll system and its controls, we noted two (2) time reports for hourly employees that were not reviewed and approved by the department supervisor as evidenced by the supervisor's signature.

Recommendation:

We recommend that all time reports for hourly employees be reviewed and signed by the immediate supervisor to help mitigate irregularities in reporting hours worked and hours taken as leave.

JOURNAL ENTRIES

Comment:

We noted that journal entries made by the clerk are not reviewed by a second person.

Recommendation:

Although we noted no irregularities in the journal entries that we reviewed, we recommend all journal entries be reviewed by person(s) knowledgeable of the entries purposes and who is independent of the general ledger system to help mitigate overrides to the accounting system and thus strengthen internal controls.